

**Committee on Agriculture
Special Session**

**G-20 COMMENTS ON THE CHAIR REFERENCE PAPER
ON BLUE BOX**

The following communication, dated 15 May 2006, is being circulated at the request of the G-20.

I. OVERALL COMMENTS

1. The G-20 welcomes the Chair Reference Paper on the Blue Box as it provides a structure for a more informed debate that will lead eventually to a text-based discussion. In keeping with its tradition to contribute positively to the advancement of the discussions the G-20 wishes to present its contribution. The G-20 intends this paper to be forward-looking, not only through providing comments on the Chair's text but also through indicating further avenues of progress in areas in which technical work can be profitably carried out.

II. BASIC G-20 APPROACH

2. Having in mind its previous contribution to the question of the Blue Box ("G-20 Draft Elements for discussion"), in which it stated that its proposals were meant to ensure that the Blue Box will, indeed, be used as a real instrument for reform, the G-20 is of the view that in order to comply with the instructions contained in paragraphs 13 to 15 of the July Framework to the effect that Blue Box payments are less trade-distorting than AMS, the conditions below should be met:

- (i) The structure of the programmes should be such that their distorting effect is less significant than AMS programmes;
- (ii) The creation of a new Blue Box will necessarily not increase the availability of subsidies per product as compared to a representative base-period; and
- (iii) Blue Box programmes will be notified, monitored and subject to surveillance so as to ensure that their implementation will be in line with its stated objectives.

III. REDUCTION IN THE OVERALL BLUE BOX CAP

3. The G-20 shares the Chairman's reference paper view that the reduction of the Blue Box ceiling from 5 to 2.5 % of the value of agricultural production is a contribution of note in the direction of curtailing the Blue Box distorting effects. The Group considers that a cut in subsidies constitutes a "first best" discipline. The ceiling of 2.5% should be applied from the beginning of the implementation period.

4. Notwithstanding this, the Group considers it important that we continue to explore the possibility of bringing further down the Blue Box capping levels at the end of the implementation period particularly in light of requirements for carrying out ongoing reforms.

IV. ANTI-CONCENTRATION DISCIPLINES AND PRICE-GAPS

5. Despite our acknowledgement of the relevance of the reduction of the Blue Box capping, the G-20 holds that this step, by no means, exhausts the issue of the need for further disciplines. Indeed, percentages tend to be deceptive. In the case of the USA, 2.5% of the value of its agricultural production is equivalent to US\$4.8 billion, an amount that is sufficient to affect significantly on particular products.

6. This concept of anti-concentration however does not resolve per se the problems of box-shifting and product-shifting.

7. For example, in the case of cotton, yearly countercyclical payments of around US\$1.2 billion (25% of the new Blue Box) were found to generate serious prejudice. A similar situation may arise in respect to other commodities. Therefore, a substantially lower figure must be envisaged to ensure a meaningful anti-concentration discipline.

IV.A. DYNAMICS OF PRICE-CONTINGENT PROGRAMMES AND CONCENTRATION OF SUPPORT

8. Price-contingent programmes such as the USA countercyclical payments have their levels determined by the variations in administered prices and exogenously determined international prices. Therefore, it is not unlikely that a particular dynamics of international prices may generate a situation in which payments will be concentrated in particular products. In these circumstances, condition II(ii) above, regarding subsidies per product, will be violated.

IV.B. AMOUNT OF THE IMPACT OF TRADE-DISTORTING SUPPORT AND DIFFERENT COMMODITIES

9. Another consideration to keep in mind is that different volumes of resources would generate impacts of different levels in accordance with the market characteristics of the commodity in question and the market share of the subsidizer country.

V. SUGGESTIONS

10. From the analysis above, addressing concentration of support is clearly required. The G-20 considers that a double trigger involving a share of the value of Blue Box entitlements and a proportion of the production value of each product, to be applied cumulatively is an alternative. Furthermore, the allowed support per product should be also constrained by the overall capping level of the Blue Box.

11. We are open to study other alternatives, provided they deliver an outcome preventing concentration beyond agreed levels of support and provided they are less trade-distorting than AMS and predictable. Therefore, a discipline setting a unique ceiling of support (for example, share of Blue Box expenditures) will not pass this test, as it allows for major distortions in some markets.

12. Furthermore, the Group considers that should a reasonable solution for this question be found, we could then examine the issue of other types of disciplines, in particular, price disciplines. The issue is twofold: to guarantee that the Blue Box, in whatever form, is less trade-distorting (no box shifting) and that it is not a vehicle for concentration of support in particular commodities (no product-shifting). The forms of the disciplines can vary as long as the objectives are attained. In this context, it is worth exploring also the use of a limit on the sum of Amber and Blue.

VI. NEWCOMERS AND JOINT AMS-BLUE CAPS

13. Current programmes and spending in the Blue Box should not be limited to its actual coverage and users. Further reform and transferring of new commodities from the AMS to Blue Box is to be encouraged once we agree on disciplines that make the Blue Box effectively less trade-distorting. Two situations are envisaged: newcomers in terms of Blue Box users and new products being transferred into the Blue Box. In either case, as aptly suggested by the Chairman in his reference paper, there should be an offset between the level of expenditures in the AMS and the amounts transferred to the Blue Box for the Members with AMS entitlements. With this solution we will be reaffirming the character of the Blue Box as a half-way for reform and its linkage to the AMS.

14. Special provisions for developing Members - 5% of the Value of Production - remain a core element and are expected to be adopted.

VII. PRODUCT-SPECIFIC CAPS IN THE OLD BLUE BOX

15. Regarding the so-called "old" Blue Box we are open to discuss criteria for dealing with its specific problems in determining product-specific caps. Indeed, the nature of the problem is different as there is a historical record of spending. We should therefore design a discipline to address this situation as proposed by the G-20 in 2005.

16. It may also arise a situation in which reductions of Blue Box spending will not affect in a similar way all products. We are ready to discuss alternatives on how to design product-specific caps that would address this situation. Furthermore, we are ready to work on product-specific caps for new products being transferred to the Blue Box.

17. As proposed by the G-20 in 2005, additional disciplines are needed to ensure that the existing *criterion* of production limitation is complied with.

VIII. PARAGRAPH 15 SITUATION

18. The G-20 is prepared to engage on the particular situation of a member "that has placed an exceptionally large percentage of its trade-distorting trade support in the Blue Box". The G-20 is of the view that the imposition of the reduced ceiling of 2.5% of the value of agricultural production would require a disproportionate cut in its Blue Box support. Nevertheless, such flexibility should not be construed as implying absence of contribution by the member in question. A suggestion to be examined consists in subjecting the Blue Box to cuts similar to the overall cut.

IX. MONITORING AND SURVEILLANCE

19. Finally in response to the Chairman query about the need or not to make it explicit the requirements in terms of monitoring and surveillance, our preferred option is to have the specific requirements stated in the Blue Box disciplines. With that, we would be positioned to avoid a situation where there may be an uneven development of disciplines in relation to the Blue Box and provisions regarding monitoring and surveillance.
